



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
OWSLEY COUNTY CLERK**

Calendar Year 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY CLERK

Calendar Year 2000

The Auditor of Public Accounts has completed the Owsley County Clerk's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Our audit includes the following comments and recommendations:

- The County Clerk Did Not Make His Statutory Maximum Salary
- Deed Transfer Tax Should Be Reported And Paid To The County Quarterly
- The County Clerk Did Not Make Timely Deposits And Did Not Distribute Payments Timely
- Disbursements Should Be Made By Check
- The County Clerk Should Post All Receipts And Disbursements
- The County Clerk Should Comply With The Uniform System Of Accounts
- The County Clerk Did Not Publish His Annual Financial Settlement Timely
- The County Clerk Should Not Pay Christmas Bonus
- Lacks Adequate Segregation Of Duties

The Owsley County Clerk received operating revenue of \$471,447 from various sources. Operating disbursements totaled \$417,482, leaving net receipts of \$53,965, which were available to pay the County Clerk's salary. Kentucky statutes mandate that the Owsley County Clerk receive a salary of \$55,070. The Owsley County Clerk received only \$53,965 in net receipts which could be used to pay his salary for calendar year 2000 and is due an additional \$1,105 toward his statutory mandated salary. Since the County Clerk did not have net receipts sufficient to cover his full statutory mandated salary, the fiscal court is responsible for contributing the remaining \$1,105.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmie Herald, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2000, in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2001, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmie Herald, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Did Not Make His Statutory Maximum Salary
- Deed Transfer Tax Should Be Reported And Paid To The County Quarterly
- The County Clerk Did Not Make Timely Deposits And Did Not Distribute Payments Timely
- Disbursements Should Be Made By Check
- The County Clerk Should Post All Receipts And Disbursements
- The County Clerk Should Comply With The Uniform System Of Accounts
- The County Clerk Did Not Publish His Annual Financial Settlement Timely
- The County Clerk Should Not Pay Christmas Bonus
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 17, 2001

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

State Fees For Services	\$	4,947
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Fiscal Court		27,751
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	95,196
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Usage Tax		86,130
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Tangible Personal Property Tax		190,622
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Licenses-

Fish and Game		16,379
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Marriage		1,518
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Occupational		1,236
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Deed Transfer Tax		3,603
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Delinquent Tax		20,921
		415,605

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	3,354
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Real Estate Mortgages		1,275
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Chattel Mortgages and Financing Statements		12,310
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Powers of Attorney		528
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All Other Recordings		2,267
		19,734

Other:

Miscellaneous		3,410

Total Receipts	\$	471,447
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	71,107
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Usage Tax		83,539
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Tangible Personal Property Tax		74,163
	\$	228,809

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 STATEMENT OF ASSETS, LIABILITIES, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements (Continued)

Payments to State: (Continued)

Licenses and Taxes-

Fish and Game	\$	16,834	
Delinquent Tax		5,198	
Legal Process Tax		<u>3,687</u>	\$ 25,719

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	19,221	
Delinquent Tax		3,281	
Deed Transfer Tax		<u>3,423</u>	25,925

Payments to Other Districts:

Tangible Personal Property Tax	\$	89,975	
Delinquent Tax		<u>10,076</u>	100,051

Payments to Sheriff 304

Operating Disbursements:

Personnel Services-

Deputies' Salaries \$ 28,541

Materials and Supplies-

Office Supplies 623

Other Charges-

Postage 4,341

Utilities 1,524

Advertising 87

Miscellaneous 1,558 36,674

Total Disbursements \$ 417,482

Net Receipts \$ 53,965

Less: Statutory Maximum 55,070

Salary Contribution Due From Fiscal Court \$ (1,105)

The accompanying notes are an integral part of the financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent for the first six months and 7.17 percent for the last six months of the calendar year.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2000
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. At all times during the year, FDIC insurance was adequate to cover the County Clerk's deposits. Therefore, no pledge or provision of additional collateral was necessary. As of December 31, 2000, the County Clerk's deposits were fully insured.

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

STATE LAWS AND REGULATIONS:

1. The County Clerk Did Not Make His Statutory Maximum Salary

According to payroll records, the County Clerk did not make his statutory maximum salary for calendar year 2000. The maximum salary allowed for officers of counties the size of Owsley County was set by HB 810 (1998) at \$55,070. The amount paid the Clerk for calendar year 2000 was \$51,833, a difference of \$3,237. Therefore, the County Clerk is due an additional \$3,237 in salary for calendar year 2000. Further, the County Clerk had net receipts of \$53,965 which were available to pay his salary. These net receipts were not sufficient to pay his entire statutory maximum salary for the year. An additional \$1,105 is needed in order to cover the full statutory maximum salary. Since the County Clerk did not have net receipts sufficient to cover his full statutory maximum salary, the fiscal court is responsible for contributing the remaining \$1,105. We recommend the fiscal court contribute \$1,105 to the County Clerk's office and that the County Clerk receive an additional \$3,237 in salary for calendar year 2000 as mandated by HB 810 (1998); Sec 246 Kentucky Constitution, and KRS Ch. 64.

County Clerk's Response:

The Clerk said he would ask the County for the funds.

2. Deed Transfer Tax Should Be Reported And Paid To The County Quarterly

The County Clerk did not pay deed transfer tax collections to the County on a timely basis. KRS 142.050(2) requires the County Clerk to remit deed transfer tax to the County on a quarterly basis. The County Clerk did not submit deed tax quarterly, but paid the full year's collections in one lump sum. Further, the County Clerk did not make this payment to the County until June of the following year. We recommend the Clerk comply with KRS 142.050(2) which requires that deed taxes be reported and remitted to the county on a quarterly basis.

County Clerk's Response:

The Clerk said he would try to do that in the future.

OWSLEY COUNTY
SID GABBARD, CLERK
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000
(Continued)

STATE LAWS AND REGULATIONS AND INTERNAL CONTROL - REPORTABLE
CONDITIONS AND MATERIAL WEAKNESSES:

1. The County Clerk Did Not Make Timely Deposits And Did Not Distribute Payments Timely

Receipts were not deposited on a timely basis. Specific receipts could not be traced to the receipts ledger, daily cash checkout sheet, or to deposits into the bank. Deposits were made sporadically and usually consisted of cash only. Further, the County Clerk made a deposit of \$3,500 on June 13, 2001, and \$1,800 on August 15, 2001. The \$3,500 deposit was made to cover Deed Transfer Tax paid to the Fiscal Court. The \$1,800 deposit was made to cover checks for prior year obligations per the prior year audit. Also, there were instances where checks written for delinquent taxes were held by the Clerk for months. We recommend the County Clerk record all receipts on a daily cash checkout sheet, post daily cash checkout sheets to the receipts ledger, make deposits daily and distribute checks in a timely manner as required by the Uniform System Of Accounts.

County Clerk's Response:

The Clerk said he would try to do better.

2. Disbursements Should Be Made By Check

The County Clerk made cash payments of approximately \$1,100 for postage. The Uniform System of Accounts requires all operating expenditures be made by prenumbered check from the Clerk's official fee account. We recommend that all disbursements be made by check as required by the Uniform System of Accounts.

County Clerk's Response:

The Clerk will correct this.

3. The County Clerk Should Post All Receipts And Disbursements

In reviewing the County Clerk's receipts and disbursements ledgers, we noted there was no itemization of receipts and that all operating receipts and disbursements were not included. However, these items were itemized and all transactions were included on the County Clerk's quarterly financial statement, and again on the year end statement. We recommend the County Clerk record all receipts and disbursements, by proper category and amount, on the receipts and disbursements ledgers as required by the Uniform System Of Accounts.

County Clerk's Response:

The Clerk will correct this.

OWSLEY COUNTY
SID GABBARD, CLERK
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000
(Continued)

STATE LAWS AND REGULATIONS AND INTERNAL CONTROL - REPORTABLE
CONDITIONS AND MATERIAL WEAKNESSES: (Continued)

4. The County Clerk Should Comply With The Uniform System Of Accounts

The aforementioned statements and citations represent a significant failure on behalf of the Owsley County Clerk to comply with the "Uniform System Of Accounts" as adopted under KRS 68.210. Among other provisions, this statute requires the official to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the management of public funds by his office, including all publication requirements. The requirements for uniform formats of financial reports shall require that the format of reports for each category of county or district office shall be uniform. We recommend the County Clerk meet minimum standards of accountability in compliance with the Uniform System Of Accounts.

County Clerk's Response:

The Clerk will work to improve this.

5. The County Clerk Did Not Publish His Annual Financial Settlement Timely

The County Clerk did not publish his annual financial settlement in a timely manner. The settlement was published on April 12, 2001, 43 days after the deadline established by statute. KRS 424.220 (6) and (8) require the County Clerk's annual financial settlement to be published within sixty days after year end. We recommend the County Clerk have his financial settlement published within sixty days of year end in the future as mandated by KRS 424.220 (6) and (8).

County Clerk's Response:

The Clerk will correct this.

6. The County Clerk Should Not Pay Christmas Bonus

The County Clerk issued "Christmas bonus" checks to three employees for \$100 each at year end. Such expenditures are not authorized in the budget and no withholdings were made from these payments. These expenditures represent wages paid and are subject to withholdings. We recommend the County Clerk refrain from paying bonuses and that all payments made to employees be considered wages and be reflected on the employees' W-2 statements at the end of the year.

County Clerk's Response:

The Clerk will correct this.

OWSLEY COUNTY
SID GABBARD, CLERK
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000
(Continued)

STATE LAWS AND REGULATIONS AND INTERNAL CONTROL - REPORTABLE
CONDITIONS AND MATERIAL WEAKNESSES: (Continued)

7. Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties in the internal control structure and its operation that in our judgement is a reportable condition under standards established by the American institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. The County Clerk made cash payments, failed to timely make deposits and payments, and failed to comply with the Uniform System of Accounts by not properly recording all receipts and disbursements. These issues indicate that the County Clerk's internal control systems are not working properly. Therefore, we note the lack of an adequate segregation of accounting duties as a reportable condition and a material internal control weakness.

County Clerk's Response:

The Clerk will work to improve this.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Owsley County Clerk for the year ended December 31, 2000, and have issued our report thereon dated October 17, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Owsley County Clerk's financial statement for the year ended December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The County Clerk Did Not Make His Statutory Maximum Salary
- Deed Transfer Tax Should Be Reported And Paid To The County Quarterly
- The County Clerk Did Not Make Timely Deposits And Did Not Distribute Payments Timely
- Disbursements Should Be Made By Check
- The County Clerk Should Post All Receipts And Disbursements
- The County Clerk Should Comply With The Uniform System Of Accounts
- The County Clerk Did Not Publish His Annual Financial Settlement Timely
- The County Clerk Should Not Pay Christmas Bonus

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk Did Not Make Timely Deposits And Did Not Distribute Payments Timely
- Disbursements Should Be Made By Check
- The County Clerk Should Post All Receipts And Disbursements
- The County Clerk Should Comply With The Uniform System Of Accounts
- The County Clerk Did Not Publish His Annual Financial Settlement Timely
- The County Clerk Should Not Pay Christmas Bonus
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 17, 2001

